Testimony to the Senate Insurance & Financial Institutions Committee on Senate Bill 24

Kalitha Williams

My name is Kalitha Williams and I am the policy liaison for asset building at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. My work centers on household financial stability and consumer protection issues in Ohio. I also convene Ohio CASH, a statewide coalition of organizations focused on improving the financial and economic conditions for low- and moderate-income families and communities in the state. I testify today to express concerns with the legislation and ask for specific bill amendments to protect Ohio consumers.

Ohio has an unfortunate history with payday lending. Payday lending was authorized in Ohio by the Check Cashing Loan Act in 1996. Eleven years later, the industry ballooned from 107 stores to 1,638.[1] In 2008, the Ohio General Assembly and Ohio voters, through legislation and a statewide ballot initiative, overwhelmingly decided to limit payday lending by creating the Ohio Short-Term Loan Act. Despite the best efforts of legislators, consumer advocates and Ohio voters, payday lending grew and became more profitable to the detriment of vulnerable families. Not only do Ohio payday lenders continue to charge some of the highest interest rates in the country, typically at 677 percent[2] , but each year more than $500 million in payday lending fees are drained from family budgets and the Ohio economy.[3]

Many payday loan companies are starting to offer installment loans. The loans are designed to appear less harmful, but are still exploitative to financially vulnerable families. Installment loans have longer loan periods – many stretching longer than a month. They have larger loan amounts that range from a few hundred to several thousand dollars. Many charge high interest rates. They often include a slew of fees such as credit investigation fees, origination fees and fees for junk add-on products. These make the loans more expensive, increase the borrower's debt load and make it more difficult for the loan to be repaid without reborrowing. Industry and state regulator data show that like payday loans, repeat lending is pervasive in the installment loan market.[4]

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[1] Policy Matters Ohio, "The Continued Growth of Payday Lending in Ohio", 2008, http://www.policymattersohio.org/wp-content/uploads/2011/09/ContinuedGrowthOfPaydayLendingInOhio2008_0319.pdf

[2] Center for Responsible Lending, Map of U.S. Payday Loan Interest Rates, 2016, http://www.responsiblelending.org/research-publication/map-us-payday-interest-rates

[3] Center for Responsible Lending, "The Buckeye Burden", 2015, http://www.responsiblelending.org/payday-lending/research-analysis/crl_ohio_analysis_nov2015.pdf

[4] National Consumer Law Center, Installment Loans: Will States Protect Against Borrowers from a New Wave of Predatory Lending?, http://www.nclc.org/images/pdf/pr-reports/report-installment-loans.pdf, July 2015

The bill sponsor and proponents claim this legislation is nearly identical to the Ohio Mortgage Loan Act (OMLA). However, the legislation increases costs and removes consumers protections found in the OMLA including:

- **Removing important consumer protections for abusive debt collection practices.** In 1977, Congress passed the Fair Debt Collection Practices Act after overwhelming evidence that many debt collectors engaged in "abusive, deceptive, and unfair practices".[5] They found the industry behavior contributed to "personal bankruptcy, to marital instability, to the loss of jobs and to invasions of individual privacy". This federal law is an important component of the OMLA. Provisions ensure consumers are not harassed or treated unfairly by prohibiting debtors from calling borrowers at unreasonable hours and by preventing debtors from threatening borrowers with physical harm or jail. This is especially important because many of these loans are secured with a borrower's personal property. Unfortunately, these important consumer protections in the OMLA are not included in this legislation. Unscrupulous lenders could use this legislation to coerce borrowers into making payments or refinancing loans they cannot afford. Specifically, the OMLA includes provisions for the federal Fair Debt Collection Practices Act in ORC Section 1321.591. This legislation does not. If the legislation mirrors OMLA, the federal law would be cross-referenced immediately after 1321.69.

- **Allowing lenders to increase fees for consumer credit.** ORC 1321.57 (H)(1)(c), a section of the OMLA, allows a maximum fee of $10 for a credit investigation. This legislation, in Section 1321.68(G)(1)(b)(iii) or lines 1272-1273, would allow registrants of the Consumer Installment Loan Act to charge $25 for the same service.

- **Allowing an international bank to exploit Ohioans.** Since 2014, The New York Times has covered OneMain Financial's nationwide effort to influence state policy makers.[6] OneMain Financial was previously owned by a Wall Street hedge fund but is being purchased by a subsidiary of a Japanese bank. To the alarm of consumer advocates, they have been able to change state laws to maximize fees at the expense of consumers.

Please protect Ohio consumers by amending Senate Bill 24 to eliminate additional fees and restore important consumer protections and found in the OMLA. Passing this legislation as is will hurt the financial stability of Ohio's working families.

Mr. Chairman, thank you for allowing me to testify on this legislation. I am happy to answer any questions that you or any of the other members of the committee may have at kwilliams@policymatteresohio.org or 614.221.4505.

Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.

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[5] https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text

[6] New York Times, Subprime Lender, Busy at State Level, Avoids Federal Scrutiny http://www.nytimes.com/2016/09/07/business/dealbook/subprime-lender-busy-at-state-level-avoids-federal-scrutiny.html, September 2016

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